



RAILROAD COMMISSION OF TEXAS

OFFICE OF GENERAL COUNSEL

OIL AND GAS DOCKET NO. 04-0267765

THE APPLICATION OF J & R CONTRACTORS FOR COMMERCIAL DISPOSAL
AUTHORITY PURSUANT TO STATEWIDE RULE 9 FOR ITS ZAPATA SWD LEASE
WELL NO. 2, FALCON LAKE, N. (WILCOX 6400) FIELD, ZAPATA COUNTY, TEXAS

HEARD BY: Donna K. Chandler, Technical Examiner
Christopher S. Hotchkiss, Hearings Examiner

APPEARANCES:

REPRESENTING:

Applicant:

Steve Fenoglio
Kerry Pollard
Ricardo Guevara
Ricardo D. Guevara
Joe Gonzalez

J & R Contractors

Protestants:

Patrick Thompson

Oralia Garza, Javier Zapata and
Juventino Zapata, Jr.

PROCEDURAL HISTORY

Date of Application:	August 5, 2010
Request for Hearing:	October 12, 2010
Notice of Hearing:	October 15, 2010
Date of Hearing:	December 17, 2010
Date of Transcript:	January 4, 2011
Proposal For Decision Issued:	February 16, 2011

EXAMINERS' REPORT AND PROPOSAL FOR DECISION STATEMENT OF THE CASE

J & R Contractors ("J & R") requests commercial disposal authority pursuant to Statewide Rule 9 for its Zapata SWD lease Well No. 2. The application was protested by Oralia Garza, Javier Zapata and Juventino Zapata, Jr. Protestants live in the area of the proposed well and are concerned about the protection of usable quality water resources.

DISCUSSION OF THE EVIDENCE

J & R Evidence

J & R requests authority to dispose of a maximum of 20,000 barrels of salt water per day into its Zapata SWD Well No. 2, with a maximum surface injection pressure of 1,375 psi. The proposed injection is into the non-productive Queen City formation between 2,750 feet and 3,446 feet.

The subject well was drilled in August 1984 to a total depth of 7,494 feet. It was plugged in January 1985 after testing two intervals. The well has 10³/₄" surface casing set at 652 feet and cemented to surface and 7⁵/₈" casing set at 4,400 feet, with top of cement at 1,986 feet. The well has 5" casing set at 7,494 feet. When the well was plugged, the casing was cut off at 3,600 feet and a cement plug was set at 3,600 feet to isolate the wellbore below 3,600 feet. The well also has plugs at 650 feet and at the surface. A 150 sack cement squeeze was performed at 700 feet. J & R plans to re-enter the well and remove the two upper plugs. The Texas Commission on Environmental Quality recommends that usable quality groundwater be protected to a depth of 600 feet. Injection will be through tubing set on a packer at approximately 2,700 feet. (See attached wellbore diagram).

There are no wellbores within a ¼ mile radius of review. For additional investigation, applicant studied wells within ½ mile of the Zapata No. 2. All three wells within a ½ mile radius have sufficient surface casing to protect usable quality water and all three wells have been properly plugged.

A cross-section across an area of approximately one mile demonstrates that the proposed Queen City disposal interval is continuous and has approximately 300 feet of sand with at least 20% porosity. The interval is suitable for disposal and is used for disposal in other area wells. Additionally, there are approximately 200 feet of shale above the proposed disposal interval which will serve to prevent migration out of the disposal interval in the Zapata No. 2.

The commercial disposal facility is proposed to be located on a five acre tract adjacent to US Highway 83 about 15 miles southeast of the town of Zapata. It is just south of the intersection of Hwy. 83 and FM 2687. Applicant submitted a site plan map of the facility, with entrance on the south side of the facility and exit on the north side. There will be a two-lane concrete unloading pad and eight storage tanks. Hwy. 83 is relatively flat in both directions from the facility, with at least ½ mile visibility in both directions. The Texas Department of Transportation has approved the ingress and egress driveway permits for the facility.

Since 1998, J & R's main business has been hauling and disposal of saltwater. The company has been in business since 1984, doing oil field construction and Railroad Commission cleanup operations. J & R currently operates two other disposal facilities in

the area. La Argentina Disposal is approximately 57 miles away in Starr County. La Mesa Disposal is approximately 77 miles away in Brooks County. J & R owns five trucks which haul water on a daily basis, a large portion from wells within a 10 mile radius of the Zapata No. 2 well. Currently, the closest commercial well to haul this water for disposal is the Bellows Operating - Ramirez No. 1 well approximately 50 miles away. To get to the Bellows facility, all trucks have to travel through the town of Zapata. Use of the proposed Zapata No. 2 would eliminate a large amount of truck traffic through the town of Zapata. There are other disposal facilities on Hwy. 83; however, these facilities will not allow other trucking companies to unload. Nabors Well Service is a trucking company in the area and supports the subject application. By letter dated December 9, 2010, Nabors indicates that it will use the Zapata No. 2 for disposal.

J & R believes that the use of the Zapata No. 2 will be in the public interest. It will reduce traffic through the town of Zapata on Hwy. 83 and on Hwy. 16. There are two schools adjacent to Hwy. 16 in Zapata towards the Bellows well and use of the Zapata No. 2 will eliminate substantial truck traffic past these schools. Use of the Zapata No. 2 will also decrease truck travel miles in general, thereby reducing the overall cost of disposal of produced water.

Notice of the application was given to all adjacent surface owners to the 5 acre tract on which the facility will be located. The only operator within ½ mile of the proposed well is Chesapeake Operating, Inc., who was given notice of the application. Notice of the application was sent to the adjacent surface owner and to Chesapeake on July 16, 2010. Notice was also sent to the County Clerk of Zapata County on July 16, 2010. Notice of this application was published in the *Laredo Morning Times*, a newspaper of general circulation for Zapata County, on July 15, 2010.

J & R has a current Form P-5 and maintains \$25,000 financial assurance as required by the Commission. The two tracts which comprise the 5 acres are owned by Alma Canales and Maria Guerra. J & R has a surface lease with the surface owners.

Protestants' Concerns

There are several residences in close proximity to the proposed disposal site with one residence being only ¼ mile away. Protestants are concerned that an underground source of drinking water (USDW) may not be adequately protected by the completion configuration of the Zapata No. 2. Protestants' concern arises from a sentence included in a letter from the TCEQ which was issued on June 16, 2010, regarding the subject disposal well. The letter is a required element of an application filed pursuant to Statewide Rule 9 and includes standard language regarding TCEQ's review of the application and a determination that use of the disposal well will not endanger freshwater strata in the area. Additionally, the letter includes language which specifies the base of USDW. In this case, the base of USDW is indicated to be 1,000 feet, while the base of usable quality water is specified to be 600 feet. Protestants believe that the letter is indicative that the proposed disposal may harm USDW because casing in the well is only set to 652 feet.

Protestants also have concerns about whether the well will be operated according to the Commission rules and regulations. There had been violations at J & R's Webb County SWD facility in 2006 when a firewall was breached. Also, Presidio SWD, Inc. had violations at its Sekula facility in Starr County in 2004. Presidio has been a related company of J & R since 2009 but was not associated with J & R when the Sekula facility had violations.

EXAMINERS' OPINION

The examiners recommend that the application for commercial disposal authority be approved. J & R has established:

1. The proposed injection well will not endanger or injure any oil, gas, or mineral formations;
2. The water resources (surface and subsurface) are adequately protected from pollution;
3. A satisfactory showing of financial responsibility as required under Commission statutes and Commission regulatory requirements; and
4. The proposed injection is in the public interest.

The well is completed in a manner which will protect usable quality water resources and will be confined to the injection interval. The TCEQ recommends protection to a depth of 600 feet; the well has 652 feet of surface casing cemented to surface. The reference to USDW at 1,000 feet as referenced in the June 16, 2010 letter is simply information provided by TCEQ to insure that there is no disposal of fluids into any USDW zone. The well has cement behind the production casing hundreds of feet above the injection interval and there is a thick shale interval overlying the Queen City. Injection will be through tubing set on a packer to confine injected fluids to the Queen City between 2,750 feet and 3,446 feet.

Approval of the application is in the public interest. The existing commercial disposal wells in the area are "private" in the sense that they will not take water from all water haulers. J & R's trucks are currently hauling water to its wells more than 50 miles from the proposed well, resulting in increased costs to operators. Additionally, water hauled by J & R's trucking company to the nearest commercial well, the Bellows -Ramirez No. 1, must travel through the town of Zapata and past two schools. Use of the proposed well will eliminate substantial truck traffic through Zapata. Less travel time and fewer miles result in reduced costs to operators.

J & R has the appropriate financial responsibility required by Commission regulations and has experience in operation of commercial saltwater disposal wells. The violation in 2006 at the J & R Webb County facility was immediately cleaned up to the Commission's satisfaction and no enforcement actions have ever been brought against J & R.

FINDINGS OF FACT

1. Notice of this hearing was given to all persons entitled to notice at least ten (10) days prior to the hearing.
2. Notice of the application was given to all adjacent surface owners to the 5 acre tract on which the facility will be located and to all operators within ½ mile. Notice of the application was sent to the County Clerk of Zapata County on July 16, 2010. Notice of this application was published in the *Laredo Morning Times*, a newspaper of general circulation for Zapata County, on July 15, 2010.
2. The subject well will be completed in a manner to protect usable quality water.
 - a. The Texas Commission on Environmental Quality recommends that usable-quality water be protected to 600 feet in the area of the proposed well.
 - b. The well has 7⁵/₈" casing set at 4,400 feet, with top of cement at 1,986 feet. The well has 10³/₄" surface casing set at 652 feet and cemented to surface.
 - c. The well has 5" casing set at 7,494 feet. When the well was plugged, the casing was cut off at 3,600 feet and a cement plug was set at 3,600 feet to isolate the wellbore below 3,600 feet.
3. Fluids injected into the subject well will be confined to the injection interval.
 - a. The proposed injection is into the non-productive Queen City formation between 2,750 feet and 3,446 feet.
 - b. Injection will be through tubing set on a packer at approximately 2,700 feet.
 - c. There are no wellbores within a ¼ mile.
 - d. A thick shale interval overlies the Queen City formation.
4. Use of the proposed disposal well is in the public interest. Use of the well will provide a safe, economic means of disposal of the fluids associated with ongoing drilling and production in the area.
 - a. The nearest commercial disposal facility which is open to the public is about 50 miles from the proposed well. To get to this well, J & R's trucks must travel through the city of Zapata.

- b. Other commercial disposal wells in the area do not accept saltwater from all trucking companies.
 - c. The location of the facility on US Hwy. 83 will not be a hazard to traffic on US Hwy. 83.
- 5. With proper safeguards, as provided by terms and conditions in the attached final order which are incorporated herein by reference, both ground and surface fresh water will be adequately protected from pollution.
 - 6. J & R Contractors is an active operator with financial assurance in the amount of \$25,000.

CONCLUSIONS OF LAW

- 1. Proper notice was timely given to all parties entitled to notice pursuant to applicable statutes and rules.
- 2. All things have occurred and have been accomplished to give the Commission jurisdiction in this case.
- 3. The use of the proposed disposal well will not endanger oil, gas, or geothermal resources or cause the pollution of surface water or fresh water strata.
- 4. The applicant has complied with the requirements for approval set forth in Statewide Rule 9 and the provisions of Sec. 27.051 of the Texas Water Code.
- 5. The use of the proposed disposal well is in the public interest pursuant to Sec. 27.051 of the Texas Water Code.

EXAMINERS' RECOMMENDATION

Based on the above findings and conclusions, the examiners recommend that the application be approved.

Respectfully submitted,



Donna K. Chandler
Technical Examiner



Christopher S. Hotchkiss
Hearings Examiner